

Message Text

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ACTION EA-14

INFO OCT-01 ISO-00 AGR-20 CEA-02 CIAE-00 COME-00 DODE-00

EB-11 FRB-02 H-03 INR-10 INT-08 L-03 LAB-06 NSAE-00

NSC-10 PA-03 RSC-01 AID-20 CIEP-02 SS-15 STR-08

TAR-02 TRSE-00 USIA-15 PRS-01 SPC-03 OMB-01 DRC-01

IO-13 EUR-25 SCEM-02 FPC-01 /203 W

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P 181000Z SEP 73

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC PRIORITY 6859

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E.O.: 11652: N/A

TAGS: GATT, EGEN, JA

SUBJECT: CASEY-FLANIGAN MEETING WITH KEIDANREN (FEDERATION
OF JAPANESE ECONOMIC ORGANIZATIONS) LEADERS SEPT. 12, 1973

THE FOLLOWING IS AN UNCLEARED MEMORANDUM OF CONVERSATION
BETWEEN UNDER SECRETARY CASEY, STATE, AND MR. FLANIGAN,
CIEP, AND LEADERS OF KEIDANREN (FEDERATION OF ECONOMIC
ORGANIZATIONS) HEL

ON SEPTEMBER 12. ALSO

ATTENDING FROM U.S. SIDE WERE ECON/MIN AND ECON/COUNS.

JAPANESE PARTICIPANTS WERE MR. UEMURA, PRESIDENT OF
KEIDANREN, MR. IWASA, CHAIRMAN OF THE BOARD, FUJI BANK,
MR. INAYAMA, CHAIRMAN OF NIPPON STEEL CORP., MR. KOBAYASHI,
PRESIDENT OF NIPPON ELECTRIC CO., MR. KAWAMATA, PRESIDENT OF
NISSAN MOTORS; MR. ANZAI, PRESIDENT OF TOKYO GAS AND MR.
HORIKOSHI, EXECUTIVE VICE PRESIDENT OF KEIDANREN.

BEGIN MEMCON

PRIOR TO THE FORMAL OPENING OF THE DISCUSSION, MR.

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FLANIGAN NOTED THAT WE HAD FELT FOR SOME TIME THAT JAPAN

SHOULD EXERCISE GREATER LEADERSHIP IN INTERNATIONAL ECONOMIC AFFAIRS. AT THE GATT MEETING, HE ADDED, JAPAN HAD INDEED PLAYED AN IMPORTANT ROLE AND WE WERE VERY PLEASED TO NOTE THIS.

KEIDANREN PRESIDENT UEMURA MADE AN OPENING PRESENTATION, IN WHICH HE NOTED THAT THE LAST TIME HE HAD MET MR. FLANIGAN THE U.S. AND JAPAN FACED SERIOUS TRADE PROBLEMS. THESE HAVE NOW BEEN REPLACED BY OTHER ISSUES, OF WHICH ENERGY AND FOOD WERE AMONG THE MOST SERIOUS. HE RAISED A NUMBER OF ISSUES ON WHICH HE REQUESTED COMMENT, INCLUDING THE U.S. DESIRE FOR A TURN-AROUND OF \$8 BILLION IN ITS TRADE BALANCE.

HE ALSO NOTED THE NEED FOR A LONG-TERM SUPPLY AND DEMAND ARRANGEMENT ON AGRICULTURAL PRODUCTS AND THE NEED FOR AN EXPANSION OF IMPORTS INTO JAPAN.

IN RESPONSE MR. FLANIGAN NOTED THAT THERE WERE INDEED A NUMBER OF PROBLEMS STRAINING THE U.S.-JAPAN RELATIONSHIP WHEN HE LAST MET WITH MR. UEMURA. IN PARTICULAR, THERE WAS THE LARGE TRADE PROBLEM RELATING TO THE EXISTENCE OF A U.S. PAYMENTS DEFICIT OF ABOUT \$10 BILLION, WHICH COULD BE CURED IN THE SHORT RUN ONLY BY AN IMPROVEMENT IN THE U.S.-JAPAN TRADE ACCOUNT. THE IRRITANTS CAUSED BY THE TRADE IMBALANCE HAVE LARGELY DISAPPEARED. WHILE TEXTILES WILL REMAIN AS A PROBLEM AREA, THE U.S. TRADE BALANCE IS NEARLY EVEN AND ITS BASIC BALANCE WAS ONLY ABOUT \$1.5-2 BILLION IN DIFICIT. MR. FLANIGAN SAID THAT MUCH OF THE CREDIT FOR SOLVING THIS PROBLEM GOES TO JAPAN: IN THE MONETARY FIELD THERE HAVE BEEN CHANGES IN PARITY VALUES, IN THE TRADE FIELD THERE HAS BEEN THE REMOVAL OF EXPORT INCENTIVES AND IMPORT BARRIERS AND THERE HAS BEEN THE RECENT CAPITAL LIBERALIZATION. MR. FLANIGAN SAID THAT HE WISHED TO EXPRESS OUR THANKS OFFICIALLY.

AT THE SAME TIME, MR. FLANIGAN SAID, CONCERNS REMAIN ON VARIOUS ISSUES, BOTH ON THE SIDE OF THE U.S. AND JAPAN. THERE IS ABOUT AN EQUAL LEVEL OF CONCERN ON BOTH SIDES. WITH THIS IN MIND, AND NEVER TAKING THE OTHER PARTNER LIMITED OFFICIAL USE

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FOR GRANTED, WE SHOULD RECOGNIZE THAT WE HAVE A GREAT COMMUNITY OF INTEREST.

ON THE SUBJECT OF ENERGY MR. FLANIGAN SAID THAT COOPERATION AMONG CONSUMING COUNTRIES WAS NECESSARY AND PREFERABLE TO COMPETITION. IF WE SHOULD HAVE COMPETITION, HE SAID, THE U.S. WOULD NOT COME OFF SECOND BEST. EVEN WITH COOPERATION THERE WILL NATURALLY BE SOME POINTS OF

CONFLICT. ACCORDINGLY, MR. FLANIGAN SAID, IT WAS APPROPRIATE FOR DISCUSSIONS TO BE HELD AMONG EXPERTS ON BOTH SIDES.

TURNING TO AGRICULTURE, MR. FLANIGAN SAID THAT THE MOST SOPHISTICATED STUDY YET MADE IN THE U.S. INDICATED A POTENTIAL FOR AN INCREASE OF \$8 BILLION IN U.S. AGRICULTURAL EXPORTS, BASED ON THE PREMISE OF MARKET FORCES DETERMINING ECONOMIC DECISIONS. HE RECOGNIZED THAT THE RECENT CONTROLS ON EXPORTS OF SOYBEANS MADE IT DIFFICULT TO ARGUE ABOUT THE POTENTIAL FOR INCREASED AGRICULTURAL EXPORTS, AND HE APOLOGIZED FOR THE U.S. HAVING PREVENTED CONTRACTS FROM BEING HONORED. HOWEVER, HE NOTED THAT THERE HAD BEEN A LARGE INCREASE IN JAPANESE IMPORTS OF U.S. AGRICULTURAL PRODUCTS. HE FURTHER NOTED THAT THE LEVEL OF OUR EXPORTS OF GRAINS AND SOYBEANS WAS GREATER THAN ALL ESTIMATES; NONETHELESS, HE WAS SORRY THAT WE HAD NOT BEEN ABLE TO SATISFY THE DEMAND ENTIRELY.

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FM AMEMBASSY TOKYO

TO SECSTATE WASHDC PRIORITY 6860

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HE EMPHASIZED THAT THE U.S. AT PRESENT WAS IMPOSING NO RESTRAINTS ON AGRICULTURAL EXPORTS. HE SAID THAT THE U.S. INTENDS TO BE A RELIABLE SOURCE OF SUPPLY. AT THE

SAME TIME JAPAN SHOULD THINK ABOUT ORDERLY PURCHASING. IN THIS CONNECTION HE SAID THAT WE HAD HAD A PROBLEM ON SCRAP, LOGS AND GRAINS.

TURNING TO THE GATT MEETING, MR. FLANIGAN SAID THAT THE MAIN POINT AT ISSUE IN REALITY WAS A NON-ISSUE, I.E. THE MONETARY-TRADE LINK, THE EXISTENCE OF WHICH IS RECOGNIZED BY ALL COUNTRIES. THE SUBSTANCE OF THAT ISSUE WAS THAT THE U.S. WOULD NOT AGREE TO SUSPEND TRADE NEGOTIATIONS IF THERE WERE AN UPSET IN WORLD MONEY MARKETS. WITH REFERENCE TO THE MONETARY NEGOTIATIONS, MR. FLANIGAN SAID THAT THE ISSUES TO BE FACED AT THE NAIROBI IMF MEETING WERE MORE FUNDAMENTAL AND HARDER TO SOLVE. IN PARTICULAR THERE IS THE ISSUE OF SYMMETRY, BY WHICH IS MEANT THAT WE WANT SURPLUS AND DEFICIT COUNTRIES TO ACHIEVE EQUILIBRIUM OVER TIME. IN ORDER TO ACHIEVE THIS, THERE IS A NEED FOR SOME DEGREE OF AUTOMATICITY. OTHERS DISAGREE, ASSERTING THAT DISCUSSION WILL BE SUFFICIENT TO LIMITED OFFICIAL USE

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ACHIEVE THIS. MR. FLANIGAN EXPRESSED THE HOPE THAT THERE WOULD BE AGREEMENT ON PRINCIPLES AT NAIROBI.

MR. IWASA THEN SUGGESTED CONSIDERATION OF A WORLDWIDE GRAIN STORAGE SCHEME, UNDER WHICH A STORAGE AREA MIGHT BE CONSTRUCTED EITHER NEAR LOS ANGELES OR IN TEXAS ON A JOINT U.S.-JAPAN BASIS. HE NOTED THAT THE MECHANISM OF FINANCING FOR SUCH A SCHEME ALSO NEEDS TO BE CONSIDERED. MR. FLANIGAN FELT THIS WOULD BE A GOOD IDEA. HE POINTED OUT THAT THE U.S. IN EFFECT HAD PROVIDED SUCH A FACILITY IN THE PAST BUT THAT OTHER COUNTRIES HAD NOT REALIZED THAT THIS IS A SHARED RESPONSIBILITY. MR. FLANIGAN SAID HE WISHED TO EXPLORE THIS MATTER FURTHER IN THE OECD. THE COST, HE SAID, IS LARGELY THE CARRYING COST OF GRAIN RATHER THAN STORAGE COSTS. IN RESPONSE TO MR. FLANIGAN'S QUESTION, MR. IWASA SAID THAT HE HAD MENTIONED THE U.S. WEST COAST AND GULF BECAUSE THOSE WERE THE MORE ACCESSIBLE POINTS FOR SHIPMENT.

MR. IWASA THEN SAID THAT SOME JAPANESE BELIEVE THAT THE NEW INTERNATIONAL MONETARY SYSTEM MUST BE ESTABLISHED EXPEDITIOUSLY, OTHERWISE TRADE PROBLEMS AND INFLATION WILL BE AGGRAVATED. HE WONDERED HOW WE WOULD PROPOSE TO ESTABLISH A RESERVE ASSET, RETURN TO CONVERTIBILITY AND TAKE CARE OF THE OVERHANG. IN CONNECTION WITH THE LATTER TWO POINTS, HE SAID THAT SOME PEOPLE FEEL THE U.S. IS NOT AS ENTHUSIASTIC AS THE EC AND JAPAN IN SEEKING A SITUATION. MR. FLANIGAN NOTED THAT THERE EXISTED DIFFERENCES OF VIEW OF MONETARY REFORM. HE CHALLENGED

THE VIEW THAT THE PRESENT SYSTEM OF FLOATING WAS MORE DAMAGING THAN THE PREVIOUS EXISTING SYSTEM. TRADE, HE SAID, HAS NOT BEEN HURT; U.S. BUSINESSES AGREE WITH THIS ASSESSMENT. THE U.S. AND CANADA HAVE NOT FELT ADVERSE EFFECTS DESPITE A FIVE YEAR FLOAT BY CANADA. REVALUATION HAS NOT HURT, BUT RATHER HELPED CONTROL INFLATION IN JAPAN.

ALTHOUGH SOME PEOPLE SAID THAT THE U.S. DRAGGED ITS FEET THROUGH ALL OF 1972 ON THE MONETARY REFORM ISSUE, IT WAS IN FACT THE U.S. THAT MADE THE FIRST SUGGESTION ON RE-LIMITED OFFICIAL USE

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FORM. THE U.S. CANNOT RETURN TO CONVERTIBILITY UNTIL A NEW SYSTEM HAS BEEN AGREED UPON. WE NEED FAIR MEASURES ON THE OVERHANG. WE WILL PAY INTEREST ON THIS MONEY, BUT WE CANNOT GUARANTEE MAINTENANCE OF VALUE. NOW,

HOWEVER, WE ARE BEING ASKED TO DO BOTH.; THE U.S. IS WILLING TO EARN THE DOLLARS BACK IF OTHERS WILL AGREE ON A SYSTEM IN WHICH WE WILL HAVE A SURPLUS.

AT THIS POINT MR. ANZAI NOTED THAT HE HAD SPOKEN THE DAY BEFORE WITH MR. FLANIGAN ABOUT THE NEED FOR COOPERATION IN SIBERIA, IRRESPECTIVE OF WHETHER THE SOVIETS LIKED THAT OR NOT. HE AGREED FULLY WITH MR. FLANIGAN'S REMARKS ON COOPERATION IN ENERGY. IN THAT CONNECTION, HE NOTED THAT THE GOJ HAD INTERVENED IN THE QUESTION OF INDONESIAN LNG BECAUSE IT HAD TO CONTROL THE JAPANESE COMPANIES. HE TERMED THIS AN UNFORTUNATE INCIDENT. HE STRESSED THE IMPORTANCE OF CONSULTATIONS.

IN RESPONSE MR. FLANIGAN SAID THAT THERE WILL NECESSARILY BE OCCASIONS WHEN TWO LARGE NATIONS SUCH AS OURS, WITH ENERGETIC BUSINESSMEN, WILL WORK AT CROSS PURPOSES. HOWEVER, HE EXPRESSED CONFIDENCE THAT WE WOULD SORT OUT THE PROBLEMS WHICH WOULD ARISE.

IN CONCLUSION, MR. UEMURA NOTED THAT PRIME MINISTER CHOU EN-LAI HAD GIVEN HIM THE IMPRESSION THE PREVIOUS WEEK THAT HE WOULD BE REASSURED IF THE U.S. AND JAPAN COOPERATED IN SIBERIAN RESEARCH DEVELOPMENT.
END MEMCON.
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